



Special Notice Regarding Year-end Capital Gain Distributions

To: Plan Sponsor and Participant Clients

Date: December, 2023

As happens every year, mutual funds are now posting various types of capital gains for year end 2023 based on the change in value of various securities held during the year. **When a capital gain is declared, participants may notice a fairly dramatic drop in the price of certain mutual funds, followed by the posting of additional shares *several business days later* (which effectively makes the participant whole).** Since BPAS receives many questions from participants during the capital gain distribution process at year end, we've prepared this memo to explain the process and alleviate concerns among participants.

When a fund declares capital gains, what is really happening?

Mutual funds are required to declare capital gains annually according to various SEC rules. Capital gains are a tax and accounting convention to recognize gains within the portfolio over the last year. Since retirement plan accounts are pre-tax (or tax deferred) by nature, this is more of an issue of visibility for DC plan participants—they end up with more shares of the same funds but with a lower price per share (generally not a taxable event).

One source of confusion arises in capital gain distributions themselves. Many participants mistakenly assume that fund families wire the amount of the capital gain distribution to BPAS, then we re-purchase shares of those same funds several business days later. However, what actually happens in a capital gain distribution is that **the fund family keeps assets invested in the fund the entire time**. Since it takes time for fund families to fully report all capital gain activity to recordkeepers (which they do at a plan and fund level), it normally takes between 3 and 7 business days for a fund's capital gain distributions to be fully reflected in participant accounts. And, when capital gains are posted by BPAS, they are posted retroactively to the dividend date. In other words, when a fund family declares a capital gain, the fund may see a 5% or even 10% drop in price for a time period that is commensurate to the number of *additional shares* being allocated to investors; then, several business days later the data catches up with the money, and additional shares are shown in the participant's account. In reality, the participant is 100% in the market in those funds the entire time.

What are the different types of capital gains commonly seen?

Three different types of year-end distributions are commonly made by mutual funds:

1. short-term gains
2. long-term gains
3. ordinary dividends

Each of these gains must be processed by BPAS through a defined reconciliation process within each plan and



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participant account. BPAS processes capital gain distributions on a **first in, first out** basis as they are received from mutual funds through the NSCC, our automated trading platform. Most equity funds will declare capital gains during the last week of November through the end of December. The actual number of funds declaring a capital gain distribution varies by year, based on stock market performance, as does the timing for each fund. Because of the dispersion of this activity, the capital gains process normally spans several weeks, but it is completed by mid-January in all accounts at BPAS. Once a fund's dividend has been posted by BPAS, it appears the following morning in the participant and plan sponsor websites after the daily (2:00 AM EST) refresh is performed.

If you see a dramatic price change in one of your funds on a given day in December, it could be because a year-end capital gain was declared. A good way to verify this is to check the website of the fund family where this information is usually posted, or look up the fund's ticker symbol in Google Finance or Morningstar.com to see if there was a large drop on one day (which may have been at odds with the market). There is often a notation there as well about capital gains activity.

Please continue to check your account at u.bpas.com for the posting of any remaining distributions. Once they are posted, you will see the number of shares in these funds *increased* by a corresponding amount. Again, remember that this is a matter of visibility only – not that your account has truly dropped in value from the capital gain or that this portion of your account is somehow out of the market. Also, be assured that for any participants who make transactions while capital gains are being posted (including transfers, loans or distributions), the correct amount due from each prior fund will be credited to the participant's account (based on an average daily balance calculation) when the gain is posted, even if it requires a second step distribution in the case of an account distribution. When year-end statements are issued, they will **include** postings of all capital gain or income distributions to your account.

Hopefully this information alleviates any concerns from the capital gains process. Participants can contact the BPAS Participant Services Center with any questions at 1-866-401-5272.